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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

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Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

OFFICIAL USE ONLY

Securian Financial Services, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

400 Robert Street North

(No. and Street)

St. PaulMN55101

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Angela Olson651-665-6493

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG, LLP

(Name - if individual, state last, first, middle name)

4200 Wells Fargo CenterMinneapolis,MN55402

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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FINANCIAL

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

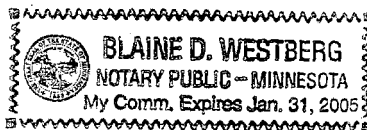
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unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, George Connolly, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Securian Financial Services, Inc., as of December 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

George Connolly
Signature
President
Title

Blaine D. Westberg
Notary Public



This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditors' Report on Internal Accounting Controls.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES**

**Consolidated Financial Statements with Supplementary
Information and Independent Auditors' Report
on Internal Control**

December 31, 2003



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholder of
Securian Financial Services, Inc.:

We have audited the accompanying consolidated statement of financial condition of Securian Financial Services, Inc. and subsidiaries (the Company) as of December 31, 2003 and the related consolidated statements of operations, stockholder's equity, and cash flows for the year then ended that are being filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

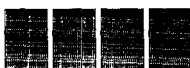
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Securian Financial Services, Inc. and subsidiaries as of December 31, 2003 and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 16, 2004



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**SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES**
Consolidated Statement of Financial Condition
December 31, 2003

Assets

Cash	\$ 7,275,350
Investment in money market, at market value, which equals cost	<u>4,081,648</u>
Total cash and cash equivalents	11,356,998
Investment in partnership	4,917,735
Commissions receivable	537,490
Due from affiliates	78,307
Accounts receivable	323,763
Securities inventory	6,568
Short securities inventory receivable	1,511
Software and equipment, net of accumulated amortization and depreciation of \$1,523,086	850,833
Prepaid expenses	500,142
Deposit with clearing organization	<u>100,000</u>
	<u>\$ 18,673,347</u>

Liabilities and Stockholder's Equity

Liabilities:

Commissions payable	\$ 402,586
Bonus payable	1,296,972
Accrued expenses	1,593,325
Short securities inventory	1,511
Securities inventory payable	6,568
Federal income tax payable	
Current	742,553
Deferred	120,300
Due to Minnesota Life, net	602,677
Due to affiliates	<u>1,390</u>
	<u>4,767,882</u>

Stockholder's equity:

Paid-in capital; authorized 25,000 shares of common stock, no par value; issued and outstanding 100 shares	41,865,635
Accumulated deficit	<u>(27,960,170)</u>
Total stockholder's equity	<u>13,905,465</u>
	<u>\$ 18,673,347</u>

See accompanying notes to consolidated financial statements.

**SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES
Consolidated Statement of Operations
For the year ended December 31, 2003**

Revenues

Commissions and distribution and service fee income:	
Associated mutual funds	\$ 8,153,392
Registered investment adviser	7,338,826
Other products	22,035,216
Fee income received from Minnesota Life	3,447,610
Other income	1,924,261
	<u>42,899,305</u>

Expenses

Commissions and distribution and service fee expense:	
Associated mutual funds	4,418,352
Registered investment adviser	6,726,067
Other products	21,411,135
Fees and expenses charged by Minnesota Life	399,143
Salaries	10,490,793
Registration fees	357,733
General and administrative expenses	6,632,556
	<u>50,435,779</u>
Loss before income taxes	(7,536,474)
Income tax benefit	<u>(2,618,763)</u>
Net loss	<u>\$ (4,917,711)</u>

See accompanying notes to consolidated financial statements.

**SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES**
Consolidated Statement of Stockholder's Equity
For the year ended December 31, 2003

	<u>Paid-in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balances at December 31, 2002	\$ 38,865,635	(23,042,459)	15,823,176
Capital contributions	3,000,000	-	3,000,000
Net loss	<u>-</u>	<u>(4,917,711)</u>	<u>(4,917,711)</u>
Balances at December 31, 2003	\$ <u>41,865,635</u>	<u>(27,960,170)</u>	<u>13,905,465</u>

See accompanying notes to consolidated financial statements.

**SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES**
Consolidated Statement of Cash Flows
For the year ended December 31, 2003

Cash flows used in operating activities

Net loss	\$ (4,917,711)
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization and depreciation	436,000
Software capitalized	(339,161)
Change in operating assets and liabilities:	
Decrease in commissions receivable	1,352,106
Increase in due from affiliates	(63,532)
Decrease in accounts receivable	157,873
Decrease in commission advances	1,699,972
Increase in prepaid expenses	(11,132)
Decrease in insurance recoverable	1,300,000
Increase in commissions payable	142,402
Increase in bonus payable	157,401
Decrease in contingent loss reserve	(1,400,000)
Decrease in due to Minnesota Life, net	(188,494)
Decrease in due to affiliates	(103,872)
Decrease in accrued expenses	(370,930)
Change in current and deferred income tax liability	<u>1,866,016</u>
Net cash used in operating activities	<u>(283,062)</u>

Cash flows from investing activities

Purchase of securities inventory	5,048
Sale of securities inventory	(5,048)
Investment in partnership	<u>(130,698)</u>
Net cash used in investing activities	<u>(130,698)</u>

Cash flows from financing activities

Capital contributions	<u>3,000,000</u>
Cash provided by financing activities	<u>3,000,000</u>
Increase in cash and cash equivalents	2,586,240
Cash and cash equivalents at beginning of year	<u>8,770,758</u>
Cash and cash equivalents at end of year	<u>\$ 11,356,998</u>

See accompanying notes to consolidated financial statements.

**SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2003

(1) Basis of Statement Presentation and Nature of Business

The accompanying consolidated financial statements include the accounts of Securian Financial Services, Inc. (the Company) (a wholly-owned subsidiary of Securian Financial Group, Inc.) and its majority-owned subsidiary BE Financial Solutions, LLC (BE Financial). All significant intercompany balances and transactions have been eliminated in the consolidation.

The Company is a registered broker/dealer in securities under the Securities Exchange Act of 1934. The Company is also a registered investment adviser under the Investment Advisers Act of 1940. The Company is the distributor of Minnesota Life Insurance Company's (Minnesota Life), a subsidiary of Securian Financial Group, Inc., variable annuity contracts and variable life insurance policies, and also sells mutual funds, annuity contracts and insurance policies sponsored by third parties.

Effective November 1, 2003, the Company transferred its ownership in Worthmark Financial Services, LLC (Worthmark) to Worthmark Holding Company, Inc. and has relinquished any ownership rights. Worthmark was formed for the purpose of forming alliances with CPA firms for sales of mutual fund shares and certain annuity and life products of Minnesota Life. Worthmark is a registered broker/dealer in securities under the Securities and Exchange Act of 1934.

During 2003, Advantus Capital Management, Inc. (Advantus), an affiliate of the Company and advisor to eleven mutual funds, formerly referred to as the Advantus Funds, decided to exit the equity advisory business. The Advantus Funds were sold to Waddell & Reed Financial Inc., Waddell & Reed Ivy Investment Co., and Waddell & Reed Investment Management Co. (W&R Companies) and the Company discontinued acting as the distributor of the Advantus Funds at that time. Also, at that time, Advantus sold nine of the eighteen portfolios of the Advantus Series Fund to W&R Companies.

The Company's results of operations may not be indicative of the results that might be obtained had it operated independently.

(2) Summary of Significant Accounting Policies

Commission Income and Expense and Distribution and Service Fee Income

Commission income on mutual fund sales is earned and recognized on the date of the sale. Related commission expense due to agents on such sales is also recognized on the date of the sale.

During 2003 until sale of the Advantus Funds, the Company received distribution and service fee income from the Advantus Funds to be used to pay certain expenses incurred in the distribution, promotion and servicing of the mutual funds.

Under an assignment agreement with Minnesota Life, the Company receives 12b-1 fees from the Advantus Series Fund portfolios and the Waddell and Reed Target portfolios, and transfers them to Minnesota Life.

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SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Summary of Significant Accounting Policies - Continued

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and investments in money market mutual funds.

Amortization of Software

Computer software costs incurred for internal use are capitalized and amortized over a three or five-year period. Computer software costs include application software, purchased software packages and significant upgrades to software. At December 31, 2003, the Company had unamortized cost of \$849,004. The Company's amortized software expense was \$340,172 for the year ended December 31, 2003.

Investment in Partnership

The Company owns a 45% investment in a general agency. This investment is being accounted for using the equity method of accounting. Under the equity method the Company records its proportionate share of earnings or losses of the agency. For the year ended December 31, 2003, the Company recorded earnings of \$286,627 included in other income, and received distributions of \$143,429.

Securities Inventory

In the normal course of business the Company periodically holds positions in its brokerage account. These positions represent various incomplete transactions at the brokerage. Ownership of these positions ultimately resides with, and is transferred to, customer accounts. The Company does not hold these positions for sale.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingent assets and liabilities, as of the statement of financial condition date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Credit Risk

Financial instruments, consisting primarily of cash and cash equivalents, potentially subject the Company to concentration risk. The Company places its cash and cash equivalents with high quality financial institutions in order to limit the potential credit exposure.

**SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements, Continued

(3) Related Party Transactions

The Company is the distributor of Minnesota Life's variable annuity and variable life products. The Company received compliance fees of \$3,447,610 from Minnesota Life for performing compliance functions for these variable products.

Under a management services agreement with Minnesota Life and Securian Financial Group, Inc., the Company reimbursed Minnesota Life in the amount of \$8,126,081 for expenses including allocations for occupancy costs, data processing, compensation, advertising and promotion and other administrative expenses, which Minnesota Life incurs on behalf of the Company. At December 31, 2003, \$602,677 was payable to Minnesota Life for such expenses.

Distribution and service fee income of \$7,690,852 was recognized during the year ended December 31, 2003 under agreements with certain investment companies managed by Advantus Capital Management, Inc. Such fees are used to pay certain expenses incurred in the distribution of shares of associated mutual funds which have adopted Plans of Distribution pursuant to Rule 12b-1 under the Investment Company Act of 1940 (as amended). In addition, commissions of \$462,540 were recognized during the year ended December 31, 2003 from sales of associated mutual funds.

The Company has an agreement with an affiliated registered broker/dealer in securities. Under this agreement, the Company assists the affiliated broker/dealer in compliance, training and marketing and provides services such as accounting and auditing. Effective December 1, 2003, the Company charges expenses related to these activities to the affiliated party and receives reimbursement. Prior to December 1, 2003, the Company incurred certain expenses on behalf of the affiliated broker/dealer and was reimbursed for a portion of these expenses. For the year ended December 31, 2003, the Company charged or paid expenses totaling \$540,237 and was reimbursed \$403,090.

(4) Income Taxes

The Company's federal income tax return is a consolidated life/non-life return filed under Minnesota Mutual Companies, Inc., the ultimate parent of Securian Financial Group. The method of allocation between companies is subject to written agreement, approved by an officer of the corporation. Allocation is based upon separate return calculations with a credit for any currently used net losses and tax credits. Intercompany tax balances are settled annually when the tax return is filed with the Internal Revenue Service.

Current income taxes are charged or credited to operations based upon amounts estimated to be payable or receivable as a result of taxable operations for the current year. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to the differences between financial statement carrying amounts and income tax bases of assets and liabilities.

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SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(4) Income Taxes - Continued

The income tax benefit for the year ended December 31, 2003 consists of the following:

	Current	Deferred	Total
Federal	\$ (3,397,881)	\$ 760,642	\$ (2,637,239)
State	18,476	-	18,476
	<u>\$ (3,379,405)</u>	<u>\$ 760,642</u>	<u>\$ (2,618,763)</u>

The difference between the income tax benefit and income taxes computed using the U.S. federal income tax rate of 35% is as follows:

Amount computed using the statutory rate	\$ (2,644,233)
State taxes	18,476
Other	6,994
	<u>\$ (2,618,763)</u>

The tax effects of temporary differences that gave rise to deferred tax liabilities are as follows:

Prepaid expenses	(166,335)
Capitalized software	107,509
Other	(61,474)
	<u>\$ (120,300)</u>

Income taxes received for the year ended December 31, 2003 was \$4,503,255.

(5) Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities and Exchange Commission, the Company is required to maintain minimum net capital as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis. At December 31, 2003, the Company had net capital and a net capital requirement of \$6,967,044 and \$317,758, respectively. The Company's net capital ratio (ratio of aggregate indebtedness to net capital) was .68 to 1 at December 31, 2003.

The net capital computation removes the effects of consolidation of subsidiary companies in accordance with Rule 15c3-1 of the Securities and Exchange Commission. There is no material impact to the Company's statement of financial condition or net capital computation relating to the presentation.

(6) Rule 15c3-3

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under subsection (k). Under this exemption, the "Computation for Determination of Reserve Requirements" and "Information Relating to the Possession or Control Requirements" are not required.

SECURIAN FINANCIAL SERVICES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(6) Rule 15c3-3 - Continued

In compliance with NASD Notice to Members 03-47, the Company has set up a fund for the exclusive benefit of customers to reimburse them for potential breakpoint overcharges on the sale of class A mutual funds sold during 2001 and 2002. The Company funded this account with \$34,412 and has paid \$785 as of December 31, 2003.

(7) Contingencies

The Company currently is a defendant in various litigation generally incidental to its business. Although it is difficult to predict the ultimate outcome of these cases, management believes, based on discussions with counsel, that any ultimate liability, except as otherwise disclosed, will not materially affect the consolidated financial position or results of operations of the Company.

The Company expects to pay an amount yet to be determined to certain clients representing settlement of losses incurred in a case of alleged agent misconduct. At December 31, 2003, the Company has recorded an estimated loss, including estimated legal costs, within a range of possible loss, resulting in a net loss of approximately \$68,000.

The Company has purchased investment advisor businesses from certain general agencies. Included in the purchase agreements are earn out provisions that entitle the agent to additional revenue if certain criteria are met. The Company could pay up to \$680,000 under these agreements. During 2003 the Company has not paid any agents.

Schedule 1

SECURIAN FINANCIAL SERVICES, INC.
Computation of Net Capital Under Rule 15c3-1
of the Securities Exchange Commission
as of December 31, 2003

Stockholder's equity	\$ 13,905,465
Deductions - nonallowable assets:	
Due from affiliates	78,307
Accounts receivable	323,763
Software and equipment	850,833
Investment in partnership	4,917,735
Prepaid expenses	<u>500,142</u>
	6,670,780
Net capital before haircuts on securities	7,234,685
Haircuts on securities	217,627
Deductions to net capital:	
Fidelity bond deduction	50,014
Net capital	\$ <u>6,967,044</u>
Total aggregate indebtedness	\$ <u>4,766,371</u>
Net capital	\$ 6,967,044
Minimum capital required to be maintained (the greater of \$50,000 or 6-2/3% of aggregate indebtedness of \$4,766,371)	<u>317,758</u>
Net capital in excess of requirements	\$ <u>6,649,286</u>
Ratio of aggregate indebtedness to net capital	<u>0.68 to 1</u>

There were no material differences in the computation of net capital or aggregate indebtedness between the amounts included in Part IIA of Form X-17A-5 (as amended on February 17, 2004) and the above computations.

See accompanying independent auditors' report.



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

**INDEPENDENT AUDITORS' REPORT ON INTERNAL
ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5**

The Board of Directors
Securian Financial Services, Inc.:

In planning and performing our audit of the consolidated financial statements and supplemental schedule of Securian Financial Services, Inc. and subsidiaries (the Company) for the year ended December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following: 1. making quarterly securities examinations, counts, verifications, and comparisons; 2. recordation of differences required by Rule 17a-13; 3. complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the



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risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 16, 2004